

**ALASKA STATE LEGISLATURE
HOUSE STATE AFFAIRS STANDING COMMITTEE**

January 27, 2022

3:04 p.m.

DRAFT

MEMBERS PRESENT

Representative Jonathan Kreiss-Tomkins, Chair
Representative Matt Claman, Vice Chair
Representative Geran Tarr (via teleconference)
Representative Andi Story
Representative Sarah Vance
Representative James Kaufman
Representative David Eastman

MEMBERS ABSENT

All members present

COMMITTEE CALENDAR

CS FOR SENATE BILL NO. 32 (FIN)

"An Act establishing the Alaska middle college program for public school students; relating to the powers of the University of Alaska; and providing for an effective date."

- HEARD & HELD

HOUSE BILL NO. 37

"An Act relating to deposits into the dividend fund; relating to income of and appropriations from the earnings reserve account; relating to the taxation of income of individuals, partners, shareholders in S corporations, trusts, and estates; relating to a payment against the individual income tax from the permanent fund dividend disbursement; repealing tax credits applied against the tax on individuals under the Alaska Net Income Tax Act; and providing for an effective date."

- HEARD & HELD

PREVIOUS COMMITTEE ACTION

BILL: SB 32

SHORT TITLE: COLLEGE CREDIT FOR HIGH SCHOOL STUDENTS

SPONSOR(s): SENATOR(s) STEVENS

01/25/21 (S) PREFILE RELEASED 1/8/21
 01/25/21 (S) READ THE FIRST TIME - REFERRALS
 01/25/21 (S) EDC, FIN
 03/08/21 (S) EDC AT 9:00 AM BUTROVICH 205
 03/08/21 (S) Heard & Held
 03/08/21 (S) MINUTE(EDC)
 03/17/21 (S) EDC AT 9:00 AM BUTROVICH 205
 03/17/21 (S) Moved SB 32 Out of Committee
 03/17/21 (S) MINUTE(EDC)
 03/19/21 (S) EDC RPT 5DP
 03/19/21 (S) DP: HOLLAND, HUGHES, STEVENS, MICCICHE,
 BEGICH
 03/22/21 (S) FIN AT 9:00 AM SENATE FINANCE 532
 03/22/21 (S) Heard & Held
 03/22/21 (S) MINUTE(FIN)
 03/29/21 (S) FIN RPT CS 4DP NEW TITLE
 03/29/21 (S) DP: STEDMAN, BISHOP, WILSON,
 WIELECHOWSKI
 03/29/21 (S) FIN AT 9:00 AM SENATE FINANCE 532
 03/29/21 (S) Moved CSSB 32(FIN) Out of Committee
 03/29/21 (S) MINUTE(FIN)
 04/07/21 (S) TRANSMITTED TO (H)
 04/07/21 (S) VERSION: CSSB 32(FIN)
 04/09/21 (H) READ THE FIRST TIME - REFERRALS
 04/09/21 (H) EDC, STA
 04/19/21 (H) EDC AT 8:00 AM DAVIS 106
 04/19/21 (H) Heard & Held
 04/19/21 (H) MINUTE(EDC)
 05/05/21 (H) EDC RPT 2DP 4NR
 05/05/21 (H) DP: DRUMMOND, STORY
 05/05/21 (H) NR: CRONK, GILLHAM, ZULKOSKY, PRAX
 05/05/21 (H) EDC AT 8:00 AM DAVIS 106
 05/05/21 (H) Moved CSSB 32(FIN) Out of Committee
 05/05/21 (H) MINUTE(EDC)
 05/11/21 (H) STA AT 3:00 PM GRUENBERG 120
 05/11/21 (H) -- MEETING CANCELED --
 05/15/21 (H) STA AT 10:00 AM GRUENBERG 120
 05/15/21 (H) Heard & Held
 05/15/21 (H) MINUTE(STA)
 01/27/22 (H) STA AT 3:00 PM GRUENBERG 120

BILL: HB 37

SHORT TITLE: INCOME TAX; PERMANENT FUND; EARNINGS RES.

SPONSOR(s): REPRESENTATIVE(s) WOOL

02/18/21 (H) PREFILE RELEASED 1/8/21

02/18/21	(H)	READ THE FIRST TIME - REFERRALS
02/18/21	(H)	CRA, STA, FIN
04/28/21	(H)	W&M REPLACES CRA REFERRAL
04/28/21	(H)	BILL REPRINTED
05/11/21	(H)	W&M AT 11:30 AM DAVIS 106
05/11/21	(H)	-- MEETING CANCELED --
05/13/21	(H)	W&M AT 11:30 AM DAVIS 106
05/13/21	(H)	Heard & Held
05/13/21	(H)	MINUTE(W&M)
05/15/21	(H)	W&M AT 11:30 AM DAVIS 106
05/15/21	(H)	Heard & Held
05/15/21	(H)	MINUTE(W&M)
05/18/21	(H)	W&M AT 11:30 AM DAVIS 106
05/18/21	(H)	Moved CSHB 37(W&M) Out of Committee
05/18/21	(H)	MINUTE(W&M)
05/19/21	(H)	W&M RPT CS(W&M) 5DP 2DNP
05/19/21	(H)	DP: SCHRAGE, STORY, JOSEPHSON, WOOL, SPOHNHOLZ
05/19/21	(H)	DNP: PRAX, EASTMAN
01/27/22	(H)	STA AT 3:00 PM GRUENBERG 120

WITNESS REGISTER

SENATOR STEVENS

Alaska State Legislature

Juneau, Alaska

POSITION STATEMENT: Introduced CSSB 32(FIN), as the prime sponsor.

TIM LAMKIN, Staff

Senator Gary Stevens

Juneau, Alaska

POSITION STATEMENT: Answered questions on CSSB 32(FIN), on behalf of Senator Stevens, prime sponsor.

DEENA BISHOP, Superintendent

Anchorage School District

Anchorage, Alaska

POSITION STATEMENT: Provided invited testimony during the hearing on SB 32.

PAUL LAYER, Vice President for Academics, Students, and Research
University of Alaska

Fairbanks, Alaska

POSITION STATEMENT: Provided invited testimony during the hearing on SB 32.

REPRESENTATIVE WOOL

Alaska State Legislature

Juneau, Alaska

POSITION STATEMENT: Introduced CSHB 37(W&M), as the prime sponsor.

KEN APLER, Staff

Representative Adam Wool

Alaska State Legislature

Juneau, Alaska

POSITION STATEMENT: Testified during the hearing on CSHB 37(W&M), on behalf of Representative Wool, prime sponsor.

ACTION NARRATIVE

[3:04:31 PM](#)

CHAIR JONATHAN KREISS-TOMKINS called the House State Affairs Standing Committee meeting to order at 3:04 p.m. Representatives *Tarr (via teleconference), Kaufman, Eastman, Claman and Kreiss-Tomkins were present at the call to order. Representatives Vance and Story arrived as the meeting was in progress.

SB 32-COLLEGE CREDIT FOR HIGH SCHOOL STUDENTS

[3:05:26 PM](#)

CHAIR KREISS-TOMKINS announced that the first order of business would be CS FOR SENATE BILL NO. 32(FIN), "An Act establishing the Alaska middle college program for public school students; relating to the powers of the University of Alaska; and providing for an effective date."

[3:06:11 PM](#)

SENATOR STEVENS, Alaska State Legislature, prime sponsor, introduced SB 32. He reported that students who participate in early and middle college programs have a higher success rate in high school and are more likely to pursue post-secondary education. He explained that the bill is designed to write a framework that is flexible for different needs in different areas of the state. He characterized it as avoiding a "one size fits all" approach. He conveyed that he had negotiated with school districts and the University of Alaska (UA) last year and implemented several changes that improved the bill and made it a

better fit for stakeholders and managers. He said the goal is to scale out to include more school districts, particularly in rural areas. He reported that early and middle college students graduate at a rate of 93 percent nationwide compared the national average of 78 percent; further, students of color make up 77 percent while 57 percent are students from low-income families. Nearly 25 percent of early and middle college graduates earn a post-secondary credential with a high school diploma. He concluded by emphasizing that the proposed legislation is an effort to recognize the accomplishments of 47 other states in establishing a state-sanctioned collaboration between secondary and post-secondary schools and encouraging students to finish high school and enter some form of higher education or professional training. He highlighted the high number of students who have disappeared and not returned since the pandemic. He surmised that many are satisfied with taking a job and earning a wage rather than pursuing college. However, he reported that young people who get a college degree are happier, stay out of prison, have longer marriages, and are more successful.

[3:10:34 PM](#)

TIM LAMKIN, Staff, Senator Gary Stevens, said he was happy to answer questions on the mechanics of the bill.

CHAIR KREISS-TOMKINS invited questions from the committee.

[3:11:01 PM](#)

REPRESENTATIVE EASTMAN asked whether the opportunities in the bill are wide enough in scope to be taken up by colleges other than the University of Alaska.

REPRESENTATIVE KAUFMAN, similarly, inquired about opportunities for private schools or homeschool programs.

CHAIR KREISS-TOMKINS opened invited testimony.

[3:12:27 PM](#)

DEENA BISHOP, Superintendent, Anchorage School District (ASD), shared that in 2012, she was the co-creator of the Alaska Middle College School (AMCS) in the Matanuska-Susitna (Mat-Su) Borough School District. She defined it as a collaboration between the University of Alaska Anchorage (UAA) and ASD. In response to Representative Eastman, she stated that students have

transferred into ASD from private schools to specifically attend AMCS. She said the program helps students successfully complete college course work that results in earning an ASD high school diploma, as well as college credits. AMCS is a choice school for juniors and senior high school students presently; however, the bill addresses capable, younger students too. She said students in the program build college readiness to achieve success at college-level academics. She emphasized that with this program, they have built the capacity within the system to enhance more rigor and understanding in getting students to be successful in college despite their terms only lasting through the receipt of a high school diploma. She said students in ASD who attend AMCS attend college on the main Anchorage campus and with proper planning, have the potential to earn an associate degree while simultaneously earning a high school diploma. Further, she reported that many AMCS students finish their general education requirements (GERs) for a Bachelor of Science or Bachelor of Arts degree as well. She noted that throughout her 10-year experience, 100 percent of the courses at UAA have been transferrable to other universities; however, the best outcome is that each year, 72 to 78 percent of graduates from Mat-Su or ASD within the program, stay in Alaska to complete their undergraduate degree, which speaks to the quality of the program. In regard to rural outreach, she said AMCS has partnered with the Lower Yukon School District in what is called the Kusilvak Academy. She summarized that AMCS is building capacity as the largest school district in Alaska for students to attend college at no additional cost. Additionally, AMCS is currently working on efforts to grow a diverse and local teacher workforce in Alaska. She said the middle college model allows students, with support, to learn on campus, adding that students are not sent to UAA without being college ready.

[3:16:58 PM](#)

MS. BISHOP continued by noting that students have reported the best feature of AMCS to be an increased sense of responsibility, an increased flexibility in their schedule, and the ability to get ahead in college. They reported that the best resource is their AMCS teachers, and the most challenging class is math. She reported that in 2019, 4,400 college credits were earned, adding that the mean student who graduates earns 39 credits. She continued to report that 55 percent of the class in 2019 earned an Alaska Performance Scholarship; further, the tuition books and fees are no cost to parents, as the program smartly utilizes the BSA [base student allocation]. She concluded by

reiterating that the program is an excellent opportunity for all.

3:19:17 PM

REPRESENTATIVE VANCE asked what kind of outreach is made to parents of students regarding proper preparation for the program.

MS. BISHOP replied beginning freshman year, discussions begin about college career and life readiness. The program also encourages freshmen and sophomores to take the highest math class possible. Prior to that, middle school students are taught the importance of grade point average (GPA). In tenth grade, a large outreach is made to communicate the opportunities that AMCS provides, "so that parents and students can go in with their eyes wide open."

REPRESENTATIVE VANCE asked, if SB 32 were to pass, whether the communication to younger students would change in order to help them prepare for the opportunity to take college classes as a freshman.

MS. BISHOP explained that currently, ACMS has a partnership with a college board to increase the rigor in all courses. She said the goal is to build competency in students and put them on a professional or trades track. She noted that for students who struggle with scoring high enough, a computerized summer program helps tutor students to meet their goals. She reiterated that if the bill were to pass, the intention would be to help students and parents believe in the concept and understand that it is attainable; additionally, to operationalize that through the supports and systems within the school district.

3:23:10 PM

PAUL LAYER, Vice President for Academics, Students, and Research, University of Alaska, reiterated that dual enrollment programs provide an opportunity for students to earn college credit while meeting high school graduation requirements. He noted that when a student completes a dual enrollment course with the University of Alaska and a school district, the course is printed on his/her transcript. Further, courses are transferrable to out-of-state universities as well, despite the goal of keeping Alaskan students in Alaska. He reported that over 200 students attend the ASD middle college program with UAA and another 150 or so with the Mat-Su district. He added that

in fall 2020, a dual enrollment middle college was launched at Kenai Peninsula College, which consists of about 33 students. In 2020, UAF launched a partnership with the Fairbanks North Star Borough School District, with 40 students in the cohort and currently looking to expand. He explained that those partnerships capitalize on the university centers and campuses to allow students to experience the college environment and take courses in person at the college level; however, many students live in areas without a college campus to attend, which is why the Alaska Advantage Program was launched several years ago through UAF as a virtual middle college program. He noted that both UAF and the University of Alaska Southeast (UAS) are participating in the virtual program in addition to 40 school districts and homeschool programs in Alaska. He reported that over 400 secondary students are attending this semester; further noting that Alaska Advantage students complete their courses at a success rate of 95 percent. He cited section 14.30.789(b), reading "the University of Alaska shall make the program available to each school district in the state." He confirmed that the middle college program is doing that by providing students the opportunity to gain dual credit regardless of their location in the state. He added that more and more districts are joining both through on-campus programs and the virtual programs. In response to Representative Vance, he noted that some programs reach students in middle school and high school to allow them to think about college as a possibility that they could tackle successfully. Reiterating Senator Steven's comments about the pandemic's impact on the college-going rate, he reported that, per the Alaska Commission on Post-Secondary Education, only 41 percent of students who graduated high school in 2019 pursued higher education opportunities within the first year. He reiterated that the programs offered in the proposed legislation are an opportunity for students to see that college can be for them and to continue to grow. He concluded by thanking AMCS's partners at the school districts who provide tutoring, mentorship, and support, which makes the partnership work for everyone.

[3:30:48 PM](#)

REPRESENTATIVE STORY thanked Senator Stevens for championing the bill. She inquired about the agreements between the university and the school districts and whether the negotiated rate varies by location or in-person versus virtual learning.

DR. LAYER stated that there are different rates per district. He conveyed that the virtual middle college rate is lower than

the in-person middle colleges, which reflects the amount of support that is provided on campus and face-to-face. Alternatively, with the virtual middle college, he indicated that much of the support is provided by the school districts; therefore, the tuition cost was reduced to encourage participation in those programs. He offered to follow up with information on the various agreements with ASD, Mat-Su, and the virtual program.

[3:33:20 PM](#)

REPRESENTATIVE VANCE asked whether classes are offered for students who are not "high achievers."

DR. LAYER said currently, most agreements are for college level GERS, adding that developmental classes are not offered through the middle college program at this time. He reiterated that the classes are intended to give students a footing within the university system. He said the courses are not designed to compete with AP [advanced placement] classes. He surmised that most students who go into undergraduate or workforce training programs have the skills for the courses offered at AMCS.

MS. BISHOP observed that adequate motivation exists within most students. She explained that some students are full college students while others are only in English classes because they still need support in math to build the competency to place in the placement exam for credit-bearing courses. She said the support referenced by Representative Vance exists within the high school side of the Alaska Middle College Program; further, a college boot camp is offered to teach students the ins and outs of university life, such as utilizing the library, locating financial aid, and building self-efficacy.

[3:38:40 PM](#)

CHAIR KREISS-TOMKINS asked whether other districts in Alaska are in dialogue about setting up a middle college partnership with the UA system. He specifically inquired about Mt. Edgecumbe High School given its adjacency to the University of Alaska campus in Sitka.

DR. LAYER said the middle college program has had a longstanding relationship with Mt. Edgecumbe High School give its proximity. He noted that it essentially existed as a middle college prior to the existence of Alaska Middle College Program. He pointed out that Kodiak is another area that has expressed interest in

growing the middle college model. He offered to follow up with a detailed list of agreements that exist across the state.

CHAIR KREISS-TOMKINS recalled having discussion with the former commissioner of the Department of Education and Early Development (DEED), Larry LeDoux, about the possibility of piloting the middle college relationship with Mt. Edgecumbe. He requested a list of districts in which partnerships are being established.

[3:41:38 PM](#)

REPRESENTATIVE EASTMAN asked whether Charter College had a similar arrangement that would provide the same opportunity for a student to gain dual credit.

DR. LAYER said he's not in a position to answer that, as the bill focuses on a relationship with the University of Alaska.

SENATOR STEVENS explained that the bill is intended to compel the University of Alaska to work with more school districts and develop the middle college program. In response to Representative Vance, he emphasized that students develop enormous confidence in a college-level class. As a former professor himself, he recalled his experience watching high school students who took college courses and how it developed their sense of responsibility.

REPRESENTATIVE EASTMAN recalled his own experience in a dual-credit program. He expressed his desire for all Alaskan students to have that opportunity. He asked whether the university could partner with a school, such as Grace Christian School in Anchorage.

SENATOR STEVENS was unsure and deferred to Mr. Lamkin.

MR. LAMKIN reiterated that as written, the scope of the bill is to provide a model for public schools with public dollars. He was unsure whether a private school would be precluded from negotiating a contract with the university; however, he indicated that the question would be better directed at Dr. Layer.

REPRESENTATIVE EASTMAN sought to confirm that the intent was not to preclude private schools.

SENATOR STEVENS answered no; however, he noted that it would be difficult to include private schools because state dollars are being used.

3:46:39 PM

REPRESENTATIVE KAUFMAN directed attention to page 3, line 26, of the bill, which addressed national standards for awarding dual credit, and inquired about the prevailing standard.

MS. BISHOP emphasized that the college courses are credit bound, meaning they're not "specially asterisked" or lesser. In regard to dual credit, she remarked "each side of the partnership needs to accept that credit," which can be difficult on the university side, she indicated. She further noted that the state of Alaska has "the Alaska standard," adding that graduation standards ensure that students have met those standards. She said a study is conducted to ensure that the proper documentation is acquired to indicate that statutory requirements are met for each course. In response to Representative Eastman, she stated that Alaska money is going to Alaska students. She said students must be enrolled in ASD to receive the state funding, which gets repaid to UAA. She recalled private school students enrolling while continuing with their private studies simultaneously. She noted that there is statutory language that speaks to public school funds going to private institutions, making it more difficult for a private school to work around those provisions. Nonetheless, she said there are homeschool dollars for students to take an independent course at a private college for credit.

MR. LAMKIN directed attention page 3, lines 18-31, which addressed national standards, recalling that the language came from the University of Alaska in the context of conserving their accreditation. He explained that if a course is not taught on a UA campus, the content, instructor, and curriculum must all be standardized so as to avoid jeopardizing the university's accreditation.

3:51:38 PM

DR. LAYER conveyed an additional dual enrollment opportunity in which approved educators teach university courses in high school. He said it's another type of dual credit partnership wherein the teachers must meet specific requirements and teach a curriculum approved by the university to meet the accrediting body. He said the language [referenced by Mr. Lamkin] was included to reflect that the classes must be taught at the

college level and meet the requirements instituted by DEED. He went on to note that Monroe Catholic High School in Fairbanks participates in the virtual middle college; therefore, nothing precludes any approved school district from discussing a pathway for participation with the university.

[3:53:23 PM](#)

CHAIR KREISS-TOMKINS opened public testimony. After ascertaining that no one wished to testify, he closed public testimony on CSSB 32(FIN).

[3:54:15 PM](#)

The committee took a brief at-ease.

[3:55:04 PM](#)

CHAIR KREISS-TOMKINS invited further questions from the committee.

REPRESENTATIVE EASTMAN inquired about transcripts for students who move from one district to another and asked how that would be handled.

MR. LAMKIN said the model is not meant to micromanage. He reiterated that students are treated like college-level students and demonstrate that they can fulfill the rigor of the courses. He acknowledged that the memorandums of understanding [MOUs], which are developed between the university and school districts, could include mitigating factors, such as moving. He opined that the bill does not need to be overly prescriptive.

DR. LAYER said it would be handled on a case-by-case basis. He added that if a student were enrolled in the virtual program, a move between districts would be easier, as they could remain enrolled in the same course.

[3:57:52 PM](#)

CHAIR KREISS-TOMKINS announced that CSSB 32(FIN) would be held over.

[3:58:22 PM](#)

The committee took a brief at-ease.

HB 37-INCOME TAX; PERMANENT FUND; EARNINGS RES.

4:00:15 PM

CHAIR KREISS-TOMKINS announced that the next order of business would be HOUSE BILL NO. 37, "An Act relating to deposits into the dividend fund; relating to income of and appropriations from the earnings reserve account; relating to the taxation of income of individuals, partners, shareholders in S corporations, trusts, and estates; relating to a payment against the individual income tax from the permanent fund dividend disbursement; repealing tax credits applied against the tax on individuals under the Alaska Net Income Tax Act; and providing for an effective date." [Before the committee was CSHB 37(W&M).]

4:00:38 PM

REPRESENTATIVE WOOL, Alaska State Legislature, prime sponsor, introduced HB 37. He stated that the legislation includes two primary components: a permanent fund dividend (PFD) formula rewrite and a revenue component in the form of an income tax. He said the bill was designed to help improve the state's fiscal situation by providing revenue and implementing a sustainable dividend formula. He turned attention to a PowerPoint presentation, titled "House Bill 37: Income Tax and POMV Allocation Towards a Sustainable Fiscal Solution" [hard copy included in the committee packet]. He began on slide 2, titled "Where We Are," which read as follows [original punctuation provided]:

After oil prices collapsed in late 2014, Alaska needed to accomplish four things in order to establish a sustainable budget:

1. Major budget cuts (mostly implemented 2015-2018).
2. Structured use of Permanent Fund earnings (SB26 passed for FY2019).
3. Revised Permanent Fund Dividend formula that works with new POMV and our fiscal reality. (Formulas were passed by both the House and Senate in separate versions of SB26, but neither survived the conference committee. Other formulas have been since proposed in several bills.)
4. New revenues to fill any remaining gap.

Thus far, only #1 and #2 have been accomplished. My proposal resolves the rest.

[4:02:41 PM](#)

REPRESENTATIVE WOOL continued to slide 3, titled "2021 Committee Process Told the Story," which read as follows [original punctuation provided]:

- Revenue declines, beginning in 2014
- Budget cuts and major draw-down of savings
- Introduction of POMV as a central revenue feature
- Ongoing structural deficits
- Lack of resolution of the Dividend question
- Alaskans pay the lowest state and local taxes among the 50 states

Once a consensus is reached that we need additional revenue, new questions emerge:

- Pros and Cons of Income Tax vs. Sales Tax vs. Other
- How much revenue to raise / how large should the dividend be?
- Structural and technical details of the bill

[4:03:44 PM](#)

REPRESENTATIVE WOOL turned to slide 4, which featured a graph of the unrestricted general fund (UGF) budget and revenue from FY 12 to FY 23. He noted that the bars represented the budget, and the "curve" represented revenue.

[4:04:00 PM](#)

KEN ALPER, Staff, Representative Adam Wool, Alaska State Legislature, on behalf of Representative Wool, prime sponsor, pointed out that deficit years were indicated by the presence of white space behind the bars (budget), or when spending was higher than revenue. He stated that FY 14 through FY 18 had multi-billion-dollar deficits, which were resolved through the use of savings. Further, he noted that the dark blue portion represented the percent of market value (POMV) draw that began in FY 19.

[4:04:34 PM](#)

REPRESENTATIVE WOOL advanced to slide 5, which pictured a graph of state savings. He highlighted the depletion of the statutory budget reserve (SBR) and the drainage of the constitutional

budget reserve (CBR). He reiterated that the savings accounts were built up and then drained to balance the budget.

REPRESENTATIVE WOOL proceeded to slide 6, titled "The Situation Last Year," which read as follows [original punctuation provided]:

When HB37 was introduced in 2021, the forecasts were that the next several budgets could be approximately balanced with a relatively small (\$500 or less) Permanent Fund Dividend.

HB37 made two major changes to balance Alaska's budget for the foreseeable future and form the centerpiece of a sustainable fiscal plan:

1. Restructuring the annual dividend formula to set future dividends to about \$1,000-\$1,200 per Alaskan
2. New broad-based revenues raising approximately \$500 million

The two pieces are dependent on each other: if higher dividends are desired, revenues would similarly need to be higher.

REPRESENTATIVE WOOL noted that a higher PFD would require more revenue; however, he emphasized that the legislation would not link the two provisions or make them mutually exclusive.

[4:05:53 PM](#)

CHAIR KREISS-TOMKINS inquired about the current status of the Higher Education Fund.

REPRESENTATIVE WOOL recalled that last year, the Higher Education fund was paid out to the recipients per statute and then swept into the CBR. This year, he said, those same scholarships were put into the general fund as a budget item. He noted that the sweepability of the fund is currently being litigated. If deemed unsweepable, it would return to an existing fund and if it is deemed sweepable, the amount of approximately \$400 million would remain in the CBR.

CHAIR KREISS-TOMKINS suggested that assuming there's an interested plaintiff, there could be a lawsuit filed for conceivably every fund that the administration deemed sweepable.

MR. ALPER, returning to slide 5, noted that the graph had not been updated to reflect 2022 figures. He pointed out that the orange bar, which represented the Higher Education Fund, will theoretically be swept into the CBR, meaning the orange portion would be gone and the light blue portion (representing the CBR) would increase unless the lawsuit goes in favor of the plaintiffs.

[4:07:51 PM](#)

REPRESENTATIVE WOOL resumed the presentation on slide 7, titled "What is Different Since Last Year?" which read as follows [original punctuation provided]:

Three major changes have distorted the short-term budget discussion:

1. Record FY2021 Permanent Fund earnings increased the end-year fund balance to \$82 billion. The forecast a year ago was \$66 billion. This increases expected POMV draws substantially, by \$150 million this year (from \$3.21b to \$3.36b) increasing to \$830 million in FY2028 (from \$3.51b to \$4.34b)

2. Oil prices have reached the highest levels since the 2014 crash, increasing forecasted FY23 unrestricted petroleum revenue by \$1,160 million (from \$0.92b to \$2.08b)

3. Much of the latest round of federal COVID funding can be used for "revenue replacement" rather than just for direct pandemic impact; that's about another \$1,000 million of available one-time funding

[4:09:25 PM](#)

REPRESENTATIVE WOOL turned to slide 8, which featured a graphic of the governor's 10-year plan, which includes a "50/50" dividend and still results in deficits starting in FY 24. He turned to slide 9, which read as follows [original punctuation provided]:

So, do we still need revenue?

Probably.

2.Legislative Finance implies that the governor's 10-year plan is undercounted by \$200 to \$400 million / year

3.Beyond that, base education funding hasn't been increased in 7 years. The capital budget is also highly constrained for years

4.Markets can crash. Oil prices can go down

5.Once a major tax bill passes, it will likely take about 18 months to begin collecting revenue

REPRESENTATIVE WOOL noted that even the Legislative Finance Division's (LFD's) budget, which used different assumptions than the governor's budget, increases the deficit going forward. He reminded the committee that the market performed well this year, which may not happen in the future. He reported that Callan predicts 6.2 percent [inflation rate] going forward.

[4:11:27 PM](#)

REPRESENTATIVE WOOL advanced to slide 10, which featured two graphs. The graph on the left depicted a historical view of Alaska North Slope oil production, indicating that the peak was in 1988 at about \$2 million barrels per day. The graph on the right highlighted the 2021 Fall forecast from the Department of Natural Resources (DNR). The overall projection indicates that oil production will be relatively flat over the next 10 years at approximately 500,000 barrels per day. He added that the price prediction is \$71. He opined that going forward, the state needs revenue. He further acknowledged that if a major piece of legislation passes, it would take 18 months to start collecting revenue. He continued to slide 11, positing that Alaska has diversified its economy but not its revenue. He recalled that in the 1970s, 1980s, and mid-1990s, GDP tracked oil and gas; however, as the economy started to modernize with the development of additional sectors, such as healthcare, tourism, transportation, and financial services, oil and gas made up a much smaller portion of GDP, which was on the rise. He shared his belief that revenue should track GDP.

[4:14:46 PM](#)

REPRESENTATIVE WOOL progressed to slide 12, which featured a graph that detailed the sectors with the largest growth in the last twenty years. Slide 13 addressed Alaska's tax burden in comparison to other states. He emphasized that Alaska is the lowest at 5.8 percent, followed by Wyoming and Tennessee at 7.0 percent. He noted that if the PFD, at \$1,606 in 2019, was

included as a "negative tax," Alaska's effective state and local tax rate would be about 1.7 percent.

[4:15:27 PM](#)

REPRESENTATIVE WOOL turned to slide 14, explaining that if Alaska were to bring in an additional \$700 million in new and increased taxes, it would still have the second lowest tax rate in the country. He noted that the proposed legislation would bring in approximately \$500 million in tax revenue.

CHAIR KREISS-TOMKINS, referring to the graph on slide 14, sought to confirm that New Hampshire was the second lowest state after Alaska in terms of per-capita taxation.

MR. ALPER confirmed that New Hampshire was the second lowest. He reported that similar to Alaska, New Hampshire does not have a state sales tax; additionally, New Hampshire has a partial state income tax and a fair amount of state property tax and local taxation.

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REPRESENTATIVE WOOL resumed the presentation on slide 15, which provided a comparison of sales versus income tax. An analysis by the Institute of Social and Economic Research (ISER), found that Alaskans making less than \$100,000 per year would pay less under an income tax than with a sales tax. He continued to slide 16, which analyzed who would pay an income tax. He reported that 55 percent of Alaskans make under \$50,000 per year. He further addressed the claim that if an income tax were implemented, not many people would pay it. An analysis of the number of tax filers in Alaska indicates that 87 percent of the adult population in Alaska would pay an income tax.

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REPRESENTATIVE WOOL highlighted the details of the bill on slide 18. He stated that the legislation would replace the current dividend formula with a new formula based on 10 percent of the annual POMV draw plus 30 percent of oil and gas royalties. He reasoned that it makes sense to structure it in such a way because Alaska's economy is heavy reliant on oil; therefore, if oil were to increase, the dividend amount would also increase and vice versa. He expressed concern that if oil were to precipitously drop and the state was obligated to pay out a large PFD, it wouldn't be possible. He reiterated that the

proposed legislation would tie slightly over half of the PFD to oil revenue. He reported that per current forecasts, the dividend will grow to \$1,400 - \$1,500 by 2030.

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REPRESENTATIVE WOOL advanced to slide 19, titled "Permanent Fund Changes," which read as follows:

Future dividends are tied to both our accumulated savings (the permanent fund itself) as well as the health of the industry (oil royalties)

Other Permanent Fund changes in the bill

- Repeals the statutory 50% "corpus" deposit of royalties from leases signed after 1979

- O The 25% constitutional requirement remains: 25% of all royalties, bonus payments, etc. will continue to be deposited.

- O The additional 25% is approximately \$75 million in FY2023; this amount would remain in the general fund available for appropriation

- Repeals the "Amerada Hess" set-aside, where the annual earnings on a specific \$420 million settlement from the early 1990s are excluded from the POMV and dividend calculations

- O About \$27 million / year currently goes to the Capital Income Fund

CHAIR KREISS-TOMKINS asked whether the bill sponsor had encountered any opposition to moving Amerada Hess off the books.

REPRESENTATIVE WOOL answered no.

MR. ALPER observed that it's slightly controversial because the original court case from 1990, which set aside that money, involved a jury pool that looks much different than Alaska's present population. He noted that a built-in sunset provides that "eventually, when enough of those people have passed, this thing will go away in another 20 or 30 years." He added that for simplicity's sake, this provision was included in the bill.

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REPRESENTATIVE STORY asked whether deferred maintenance is included in Amerada Hess.

MR. ALPER explained that the \$27 million per year that comes out of the \$420 million settlement goes to the Capital Income Fund, which has been a funding source for deferred maintenance over the last several budget cycles. In past years, he said, it financed capital projects of interest to the Co-Chairs of the Finance Committees.

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REPRESENTATIVE WOOL resumed the presentation on slide 20, titled "Income Tax," which read as follows [original punctuation provided]:

Flat rate 2.5% tax based on federal "Adjusted Gross Income" (AGI)

- Metric that is the most widely used among states with income taxes
- Includes all income Alaska-source: wages, self employment, earnings of partnerships and S-corps, capital gains, retirement, etc.
- "Adjustments" to income (i.e. non-taxed items) include retirement contributions, student loan interest, and alimony payments.
- So-called "itemized" deductions, like mortgage interest, are taken after AGI and would therefore be taxed

"Standard Deduction" tied to federal code: First \$12,550 (single), \$18,800 (head of household), and \$25,100 (joint) is not taxed

- PFD payments are also non-taxable income
- Largely eliminates the tax burden on lower-income Alaskans and provides a form of "means testing" for the dividend

REPRESENTATIVE WOOL turned to slide 21, titled "Revenue and Impacts," which read as follows [original punctuation provided]:

- The LB&A Committee in 2020 hired the Institute on Taxation and Economic Policy (ITEP) last fall, to look at several different "flat rate" income tax options

- The original bill (2.5%, \$10k/\$20k standard deduction) was "Option 2"
- The consultant estimated \$581 million annual revenue **(Fiscal note: \$580 million)**
- The amended bill, with a higher standard deduction, is estimated at **\$545 million**

REPRESENTATIVE WOOL proceeded to slide 22, titled "Even after paying a tax, most Alaskans would still receive a dividend," which read as follows [original punctuation provided]:

- The forecasted FY2023 POMV draw is about \$3.36 billion
- A dividend based on 10% of that plus 30% of oil royalties would be a \$774 million appropriation, working out to roughly a \$1,148 dividend per person
- For the majority of Alaskans, their tax burden will be less than their dividend, meaning they will still receive a net payment from the state**

REPRESENTATIVE WOOL, referencing the chart on slide 22 that analyzed the tax liability for different household types and income levels, pointed out that a single parent with one kid who makes \$25,000 or less would pay a tax of \$98 and retain a dividend of \$2,198. A married couple making \$50,000 would owe a tax of \$565, retaining \$1,731 net dividend. He noted that the bill would allow people to check a box when filing for the PFD, which would allow their tax to be taken out of their PFD. Finally, a married couple with two kids making \$200,000 would owe \$4,258 in taxes, retaining \$334 net dividend.

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REPRESENTATIVE WOOL concluded on slide 23, which read as follows [original punctuation provided]:

A \$2,500 dividend, as proposed by the governor, is risky and unaffordable.

A \$500 dividend, which is what we can afford without taxes or major budget cuts, is too low to be acceptable to most Alaskans.

A moderate tax bill, such as the one I introduced, is the cleanest way to resolve the entire fiscal deficit.

The two pieces are roughly equal in size and impact:

- Adds approximately \$600 million / year in new revenue o\$545 million in tax revenue plus \$75 million in additional UGF royalties
- Clarifies and reduces the state's commitment to PFDs
- New dividend payment would be about \$774 million in FY2023
- Budget would be balanced at any oil price greater than about \$50 / bbl

This enables us to afford the dividend into the future while maintaining a stable state budget

CHAIR KREISS-TOMKINS sought to confirm that Representative Wool had indicated that a \$500 PFD is too low.

REPRESENTATIVE WOOL confirmed that he believes a dividend of \$500 is too low. Additionally, he opined that new revenue is necessary. He reiterated that the bill would not link the proposed income tax to the PFD. He said the PFD would be a budget item, similar to education, public safety, and corrections. He explained that an income tax would track GDP; therefore, if Amazon were to move to Anchorage creating 20,000 new jobs, the state would receive extra revenue to cover the increased need for roads, schools, and public health, for example. Additionally, he pointed out that the governor is taking a flat budget and adding 1.5 percent for inflation while LFD is adding 2.5 percent for inflation plus several additional factors. He opined that there are other needs aside from a flat budget, such as the base student allocation (BSA), K-12 education, Medicaid costs, medical costs, the capital budget, defined benefits, and deferred maintenance needs. He believed that building up the budget wouldn't be a bad thing, as long as a larger revenue portfolio that included a broad-based tax was part of it.

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REPRESENTATIVE STORY recalled from an earlier presentation that businesses would invest more if a stable fiscal plan was implemented, which is critical to the future of this state, she opined. Additionally, she highlighted the benefit of an increased capital budget and \$600 million in revenue if this bill were to pass. She believed the proposed measure would

provide assurances to the quality of life in Alaska. She thanked the bill sponsor.

REPRESENTATIVE WOOL acknowledged that a balanced fiscal plan would bring stability and predictability that would, in turn, attract business and people to the state.

MR. ALPER highlighted an oddity in the fiscal note due to a miscommunication about the effective date with the Department of Revenue (DOR). He said if there is a desire to move this bill, the sponsor would be highly amenable to correcting the retroactive nature of the effective date and make it take effect in the future.

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REPRESENTATIVE VANCE directed attention to slide 14, which references [House Bill 115], the income tax bill from 2017. She asked whether CSHB 37(W&M) is similar to that piece of legislation and how it differs.

REPRESENTATIVE WOOL explained that House Bill 115 implemented a progressive tax whereas the current bill proposes a flat tax of 2.5 percent.

MR. ALPER noted that much of the technical language in CSHB 37(W&M) is similar to House Bill 115; however, the tax rates and the structure of the tax is much different.

[4:35:06 PM](#)

REPRESENTATIVE EASTMAN inquired about the concept behind slide 14. He asked, "Are we talking about when something is taken and then used for government, spent by government, goes to a government program, for example?"

REPRESENTATIVE WOOL answered yes, moneys that are paid by an individual to a governing body to be used for schools, police, roads, etcetera.

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REPRESENTATIVE EASTMAN recalled hearing discussions around the capitol building about "the oil belonging to the people." He asked what the graph on slide 14 would look like if it were adjusted for "the oil being taken from the people and then given to government, for example."

REPRESENTATIVE WOOL said he did not have that data. He opined that if the oil "belongs to the people," there are other considerations to think about, such as the tax paid by the oil companies. He said he would follow up with his response after analyzing the numbers.

REPRESENTATIVE EASTMAN said he would be interested in seeing that.

REPRESENTATIVE WOOL in closing, acknowledged that people want stability and predictability. He pointed out that the state budget has been cut by 20 percent for the past five years and expressed concern that more is being spent on prisons and cops than on schools. He believed that if going forward, revenue increased and the budget stabilized, investments in education would ultimately lower the cost of corrections and public safety. He expressed his hope that in the future, Alaska would have an educated working class who could help build up the GDP.

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CHAIR KREISS-TOMKINS announced that CSHB 37(W&M) would be held over.

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ADJOURNMENT

There being no further business before the committee, the House State Affairs Standing Committee meeting was adjourned at 4:38 p.m.